



**Financial Management Systems Improvement Council
Meeting Notes
University Park Marriott
Salt Lake City, UT
July 24, 2001**

Attendees: Tom Baranouskas-PNNL, Ralph Bonner-SNL, Jim Campbell-DOE HQ, Bruce Chrisman-Fermilab, Nancy Fitchpatrick-DOE OR, Paul Grefenstette-WSRC, Jim Herring-LANL, Paul Keele-DOE ID, Jim Lopez-LLNL, Brian Morishita-INEEL, Dean Olson-DOE AL, Ron Ragland-BWXT Y12, Paul Rosenkoetter-INEEL, Brian Sack-BNL, Phil Schultz-LLNL

Guests: Gary Concannon-SNL, Mark Israel-BNL, Phil Schultz-LLNL

Jim Campbell

CFO Changes/Update

- ☐ Dr. Bruce Carnes was nominated and confirmed as the Department's CFO and came on board at the beginning of June. In addition to his CFO responsibilities, he was recently appointed as the Acting Director of Management and Administration.
- ☐ Bruce comes from the Defense Finance and Accounting Service (DFAS) where he served as Director of Resource Management and as the Agency's Chief Financial Officer. One of his responsibilities at DFAS was measuring cost savings associated with the standardization and consolidation of accounting and finance policies, procedures, and operations. Previously, he held CFO type positions at the Office of Drug Control Policy and the Department of Education.
- ☐ Bruce recently announced a proposed reorganization of the Office of CFO

Directors who report to his Principal Deputy .

- ☐ Basically, the organization structure includes the CFO and Principal Deputy (Christina Edwards) and three Deputy Directors:
 - Lyn Henderson for Budget
 - Tom Palmieri for Program Analysis and Evaluation
 - Jim Campbell for Finance and Accounting Policy
- ☐ Focus is on effectiveness, efficiency, customer service, doing more with less
- ☐ The CFO is a very active player in 7th floor decisions – a key member of the senior management team
- ☐ Both the CFO and the Deputy have broad experience in accounting, budget, and financial management with respect to a Federal agency.
- ☐ I would expect a more balanced focus between budget and accounting/financial reporting based on their experience.
- ☐ (Flowing from the Secretary) Both Bruce and Christy are very concerned with responding promptly to all correspondence.
- ☐ The focus on getting a clean audit opinion could not be any greater as selected organizations can attest to. I would not want to be the cause of the Department not getting a clean opinion. While DOD has not yet achieved a clean opinion, DFAS has.
- ☐ Bruce is getting focused on the BMIS Phoenix project and is briefed every two weeks on our progress. He is well aware of the systems initiatives that have been unsuccessful at DOD, DOE, and in Government in general and will monitor our progress very closely.
- ☐ In summary, Bruce runs a very business like operation, expects people to do their jobs, and holds his managers accountable.

Operational Program Reviews

- ☐ The Deputy Secretary will soon announce a new initiative designed to improve overall business management at the Department, for which the CFO is taking the lead, calling for quarterly operational program reviews.
- ☐ As an initial step, the CFO, in conjunction with the PSOs, will develop

- Accountability that exists at the level of the PSO and below
 - Management controls in place to ensure programs are well focused
 - Means that exist to measure progress (milestones and schedules)
 - Measures actually used to manage programs
- ☐ Survey will establish a baseline of current practices upon which we will build upon to develop measures and metrics to ensure programs remain on schedule, within budget, and deliver intended results.

Congressional Language and Marks

- ☐ FY 2001 Supplemental – Conference held on July 19 – Summary of the Conference Committee recommendations attached. The House took final action and passed the Supplemental on July 19. Bill sent to the Senate for floor action on July 23.
- ☐ FY 2002 Interior Appropriations – House and Senate have passed an Interior Bill – Not clear when conference will occur (may or may not be before the August recess) – Summary of action attached
- ☐ FY 2002 Energy and Water Development (EWD) Bill - House and Senate Appropriations Committees have marked up the respective Subcommittee's FY 2000 EWD Appropriations Bill – Summary of actions attached. I will highlight those for which you may be interested.

NNSA Update

- ☐ While I don't have much to report, I do have some questions for the NNSA Council members. Last year we went through a lot of changes due to the new DP budget structure, including a dramatic increase in the level of control, significant budget realignments, briefings for the Hill appropriations and authorizations committee staff, questions from GAO, etc. How are we doing with respect to executing the budget. Are the definitions of each of the activities sufficiently clean? Are we properly accounting against the new structure? Is the lower level of controls impeding program accomplishment?
- ☐ With respect to the FY 2003 budget, DP submitted a final version on Thursday, July 19. Review of the budget with NNSA and the Deputy Secretary to be held on Tuesday, July 24.
- ☐ Security investigations – An MOA is circulating to get agreement among the programs and the CFO to fund security investigations and reinvestments in

- FY 2002 Reprogramming Guidelines – House – There is generally no internal reprogramming authority. However, each plant may transfer between programs up to \$5 million or 10 percent of the funding, whichever is lower, if it can be shown that cost savings and efficiencies will result. This authority is not to be used to cover cost overruns or schedule slips for any project or program.
- Limitation of Russian Program Funds – House directs that not more than 25 percent of funding for Russian programs be spent in the US and requires DOE to report to the Committee by December 15, 2001 on the steps being taken to meet the limitation.
- Senate provided within Defense Programs \$300 million for facilities and infrastructure initiative. House provided \$17 million.
- NNSA has initiated an effort to improve the production of reprogramming letters using the “six sigma” process. A meeting was held in Kansas City last week to establish an approach to improve timeliness through reengineering of NNSA procedures.
- On March 28, the CFO issued correspondence to all Departmental Elements and NNSA on reprogrammings. Included in the definition of reprogramming is the House Appropriations Committee view that a reprogramming includes “any significant programmatic departure from that described in Congressional budget narrative and/or Congressional testimony (including Q and As submitted for the hearing record.)” We believe restrictive reprogramming guidance from Congress will continue until Committee staff is convinced that DOE follows the guidelines.
- General Gordon transmitted a draft NNSA Future Years Nuclear Security Program to OMB on March 2. The plan is apparently not compliant with the NNSA Act with respect to budget numbers. OMB action on the plan has been deferred pending completion of DOD and NSC reviews of NNSA programs.
- NSC will probably complete its review of the NN programs in the coming weeks. Look forward to the Administration’s announcement of the results.
- General Gordon announced key leadership appointments on May 7 in conjunction with the plan for organizing NNSA as required by the FY 2000 National Defense Authorization Act submitted to Congress on May 4. Details are attached. Still planning corporate NNSA staff

Overhead Review

- FY 2000 House EWD Report Directs the Department to “review the costs included in the overhead charges of the management and operating contractors and report to the Committee on the reasonableness of these charges. In addition, the Department should determine which charges should more appropriately be funded as direct program costs.”
- The former Secretary identified the need for overhead reviews as one of his management efficiency initiatives.
- Field Reviews conducted during May and June, 2000 – Reports to HQ in early July
- Headquarters Teams (Budget, Accounting, Program) visited sites in late Summer, 2000 designed to:
 - Build HQ expertise, knowledge, and understanding of overhead and activities of each site
 - Ensure some level of consistency and comprehensiveness in reporting at each site
 - Provide the basis for the Department’s report to the Congress
- Headquarters Team Draft Reports issued to the 15 sites for comment
- Headquarters Performed Further Analysis at 5 sites – drafts of those reports provided to each site – each site provided comments in return

General Conclusions

- Field Reviews Concluded Overhead was Appropriate and Reasonable
- Headquarters Review Confirmed Majority of Overhead Charges was Appropriate
 - Categories or classification of overhead costs by contractors were reasonable
 - Overhead costs were neither excessive nor inconsistent with the contractors’ management of DOE facilities
 - Methodologies used to allocate overhead costs, as described in contractors’ CAS disclosure statements, complied with CAS.
 - While costs appear to be allowable under contract terms and

community outreach, business development, etc.

- Rather than have some activities funded through overhead, more accountability could be provided if they were funded through a DOE direct program (e.g., museums).

-

Recommendations

- ☐ Establish council to oversee implementation of overhead policy, guidance, and reviews
- ☐ Establish and implement a requirement for annual certification of contractors' indirect costs.
- ☐ Develop and implement accounting and budget guidance for overhead.
- ☐ Establish and implement a plan for performing audits of contractor cost accounting disclosure statements

Management Briefings

- ☐ Chief Operating Officers, Director of Procurement, and Other Senior Officials
- ☐ Congressional Staff (May 2001)

Future

- ☐ *At this stage, it appears there will be no formal report to the Congress*
- ☐ There are no current plans to collect additional overhead data
- ☐ There are no plans in FY 2001 to perform additional overhead reviews

Impact of Direct Funding of S&S Costs on Indirect Rates

- ☐ There is a call going out dated July 19 to determine the effect of eliminating S&S costs from each of the indirect cost pools that included S&S costs as a result of direct funding in the FY 2001 budget.
- ☐ Initiative is in response to concerns raised by some WFO customers that there has been no or very little reduction in the indirect rates charged by the laboratories.
- ☐ Data call has been coordinated through the Field Management Council and requests three years of data — FY 1999, FY 2000 and FY 2001 (estimated)

Proposed Financial Reporting Changes

- The Bush Administration has recently identified two major government wide management reform initiatives. These involve reductions in the amount of erroneous payments government wide and more timely, useful, and reliable financial information for making operating, budget, and policy decisions.

Action: Jim Campbell will provide three reports that are examples of these changes. Jim Lopez will form a working group to look into this. Jim Campbell will see if he can add this topic to the CFO Council's meeting agenda. Need to add an OMB presenter to speak at the 2002 FMSIC/BRC Annual Conference.

Erroneous Payments

- In his FY 2003 Guidance and Allowance letter to Heads of Agencies, the Director, OMB indicated that in the area of improved financial performance, the immediate objective is to reduce erroneous payments. Further, OMB will work with agencies to include in the FY 2003 budget submission information on erroneous payment rates, including actual and target rates for directly administered programs over \$2 billion.
- In addition to the Administration's initiative, the Chairman and Ranking Member of the Senate Government Affairs Committee, referencing a GAO report that identified that agencies have made between \$19.1 and \$20.7 billion in erroneous payments in FY 1998 and FY 1999, are similarly concerned about this problem. In their recent correspondence to the Secretary, they reference a draft GAO Executive Guide, "Strategies to Manage Improper Payments," which identifies strategies and best practices used by private industries and some Federal agencies to reduce improper payments.
- While the problems noted by GAO primarily involve entitlement programs, since most agencies do not include estimates of their improper payments in their annual financial statements, they (GAO and the Committee) believe the full amount of the improper payments is significantly greater.
- According to GAO, improper payments stem from agency errors, such as duplicate payments, poor management of agency programs, or outright fraud and abuse by program participants and/or agency employees.
- The Senators asked a series of questions of the Secretary ranging from what does your agency do to create a culture of accountability to what is the nature and extent of improper payments your agency has made in the last two fiscal years and if you do not yet know what are you doing to find out

- While we can take solace in the controls built into our systems, the annual financial statement audits not identifying any significant issues with respect to our payment activities, and a separate IG audit of payments at one of our contractor sites and payment centers not identifying any significant issues, this will not be sufficient to answer the Senators inquiries nor to respond to Administration concerns.
- To address this question, we will need to conduct a review of FY 2001 payments at selected Departmental and contractor payment offices. We intend to perform such a review at a limited number of sites perhaps in conjunction with KPMG's ongoing FY 2001 financial statement audit work. Based on the results of these reviews, we will have a broad gauge of the nature and extent of improper payments to determine next steps. Further, beginning in FY 2002, we will require payment offices to identify and track improper payments and periodically report the nature, dollar amount, and corrective action, as appropriate to the CFO.

Reliable Financial Information

- In testimony before the House Government Reform Committee, the Secretary of the Treasury asserted that reporting six months after the close of the fiscal year was simply not good enough. He mentioned three things that needed to be done:
 - Identify short-term improvements to reduce closing time.
 - Reexamine overall financial management processes to look for ways our systems can help.
 - Treasury/GAO/OMB establish specific goals for timing of future financial reporting and to make reports more meaningful.
- **On May 11, OMB issued draft guidance for Form and Content of Financial Statements. It proposed new requirements to improve timeliness, enhance usefulness, and ensure reliability, including:**
 - Agency preparation and submission of interim financial statements effective March 31, 2002, initially semiannually and then quarterly. These would be unaudited.
 - Accelerated reporting for financial statements and accountability reports for FY 2001 and FY 2002. In FY 2001, reports would be due to OMB and the Congress on February 27, 2002 and in FY 2002 by February 1, 2003. Currently the financial statements are

- Comparative reporting for FY 2001 and for interim financial statements beginning in FY 2002.
 - Clean audit opinions for all civilian agencies by FY 2003.
 - Audits of Agency Major Components for FY 2003.
- ☐ Final guidance from OMB is expected in the next few weeks. It is a given that these requirements with minor modification will happen.
 - ☐ In addition, the JFMIP has contracted with KPMG to look at the Intragovernmental Elimination issue, which is one of the major issues impacting a clean government wide opinion. The intent of this effort is to provide for the ability to significantly increase the use of automated procedures for recording, reconciling, and reporting these transactions. Currently, few agencies are able to reconcile these transactions with their trading partners.
 - ☐ Your continued support is imperative if we are to build on our successes and government wide reputation in the area of audited financial statements. I know you will be up to the challenge.
 - ☐ Now that we are talking about financial statements, I know KPMG is performing their interim test work for the FY 2001 audit as well as looking at EDP controls in conjunction with the Government Information Security Reform Act evaluations required of agency IGs. How are things going at your site??? Major/Minor Issues, Problems with the auditors??

OMB Guidance on Preparation of the FY 2003 Budget

- ☐ Budget and Program Integration – OMB plans to formally integrate performance with budget decisions, with the intent to produce performance-based budgets beginning in FY 2003. Initially, OMB will work with agencies to select outcomes for a few programs, the outputs that influence these outcomes, how much the options cost, and how effectiveness could be improved. Programs mentioned for Energy are improve infrastructure management, implement capital programming and improve project management, improve accountability of the natural gas and oil technologies programs, improve the scientific understanding of and develop and deploy technologies that reduce EM cleanup costs.
- ☐ Strategic Management of Human Capital – Agencies to submit a Five Year

that interact with citizens).

- ☐ Competitive Sourcing – complete public-private or direct conversion competitions involving an additional 10 percent of the Federal positions listed in Agency FAIR Act inventories over that completed to meet the FY 2002 goal.
- ☐ Expanding Electronic Government
- ☐ Develop better R&D performance measures.
- ☐ Any significant spending increase proposals should be fully offset by reductions in other agency allocations and be presented with special attention to program performance:
 - Is the program demonstrably effective?
 - If clear evidence of program performance is lacking, how will you measure program performance
 - If program performance needs to be improved, how will the program be restructured to achieve the goal?

How will progress toward the performance goal be measures?

Jim Lopez

Safeguards and Security

- ☐ Accounting Processes. Only cost and revenue have to match up. Total costs will be collected and then costs allocated to the WFO account so tha tWN and ZN will equal. A disparity with the 82 accounts occurs with the billings.

ACTION: Jim Campbell, Nancy Fitzpatrick, Paul Keele, Ralph Bonner and Mark Israel will develop a methodology for handling Safeguards and Security charges. Jim's staff will take the lead.

Waivers and Exemptions

- ☐ Does not seem to be enough reason for exemption/waivers to be used.

Dean Olson

BMIS Phoenix

- ☐ Efforts are being made to capture the MARS submission through April at Savannah River. Also, efforts are currently focusing on mapping to Oracle Financials. During week 2 of the conference room pilot an accounting flex field consisting of 8 segments and 48 characters was identified. A middleware solution is being developed to pull data from contractors in its current form and convert to Oracle. The second phase will

- 8131 and 8132 cost detail loaded into the Oracle A/P module. It is still undetermined how to get no funded activities into Oracle. This consists of \$8M this year and \$10M next year.
- Phased deployment is still the current approach, however, it is acknowledged that crossing fiscal years causes problems with using this approach. Also, disposable interfaces must be developed.
- New fund type 70 being proposed that lends transaction to fund type.
- The decision to go project or G/L centric has not been made.

Jim Lopez

Cost Estimating Working Group

- Cost estimating is no longer a requirement for the BMIS Phoenix project.

Paul Grefenstette

Legacy Waste Capitalization

- A white paper suggesting elimination of this type of capitalization in the EM program is being developed. Numerous issues have been addressed. The basis for this proposal is increased efficiency.

ACTION: Paul will distribute the white paper once it is completed.

Jim Lopez

IG R& D Audit

- An audit of the UC Collaborative research with LLNL was conducted. This audit also examined R&D within indirect activities. The premise for this audit was that R&D must be either direct or LDRD funded. 26 activities were identified in the indirect area and extrapolated over three years to determine how much was unallowable. The conclusion was that anybody charging an indirect center cannot be doing R&D work.

Electronic Signature

- GAO and NIST are responsible for the usage and acceptance of the electronic signature technology. Some DOE field offices are not accepting electronic signatures but instead require hardcopies with a signature. Rocky Flats and Bechtel Hanford are submitting electronic invoices.

Action: Jim Campbell will push this up to SUC to look at.

Detailed Billing Information

- Some sites are asking for detailed billing information

All Members

FMSIC Future Activities Roundtable Discussion

- ☐ Audit issues. KPMG continues to conduct audits throughout the DOE complex.
- ☐ Rate Requests. Contractors continue to receive numerous requests for rates.
- ☐ Benchmarking Survey. No interest was expressed by the Council membership to conduct another benchmarking survey.
- ☐ Capitalization threshold. The possibility of increasing the thresholds for both capital equipment and GPCE was discussed. The problem of getting accounting and property management out of sync with each other if an increase were to occur was discussed too.

Action: LANL will take the lead by doing an analysis of (1) how many items below \$25K and (2) how many items below \$50K and report at the next meeting.

Jim Lopez

IPA

- ☐ Change of station costs were discussed and an analysis of how contractors calculate labor costs associated with temporary duty of less than a year duration is required.

Action: Brian Morishita will send out an FMSIC Clearinghouse request for information to all of the contractors requesting this information.

Brian Morishita

FY-2002 FMSIC Clearinghouse Funding Request

- ☐ A request of \$17,400 per contractor member to fund the FMSIC Clearinghouse for FY-2002 was made and approved.

2002 FMSIC/BRC Annual Conference

- ☐ Proposed sites for the conference include Washington, D.C. area, St. Louis, Atlanta.
- ☐ Suggested presentation topics include:
 - ☐ Electronic Commerce
 - ☐ Electronic Signature (GAO/NIST)
 - ☐ Outsourcing
 - ☐ IG
 - ☐ Gartner Group – current and future technology ERP related trends
 - ☐ Leveraging technology applied to finance
 - ☐ Legislative (Senate) perspectives
- ☐ It was proposed that the luncheon be held on the second day of the conference.